

# The Washington Post

## Obama Talks Health Care

Wednesday, July 22, 2009 4:17 PM

*In a telephone interview with editorial page editor Fred Hiatt Wednesday afternoon, President Obama said he will not accept a health-care reform bill, even one that is deficit-neutral, if it does not also begin to reduce the cost of care. He also indicated openness to a cap on the deductibility of employer-provided health insurance, as long as it does not kick in at current levels; such a future cap could help restrain health-care inflation, he said. And he warned that, if the nation does not soon grapple with its larger fiscal deficit problem, the government may have a harder time borrowing, and interest rates could start to rise. The best way to deal with the deficit, he said, may be through a commission for which "everything is going to have to be on the table." The commission would report back after the 2010 election, with the prospect of "locking in a pledge for action." The conversation follows. And for the Post editorial board's response, read: [Mr. Obama on Health Care](#).*

President Obama: Hello.

*Fred Hiatt: Hi.*

Obama: Fred.

*Hiatt: This is Fred Hiatt.*

Obama: How are you?

*Hiatt: Fine. How are you, Mr. President?*

Obama: I'm doing fine.

*Hiatt: Thank you for taking this time.*

Obama: Absolutely. Let's talk health care.

*Hiatt: Okay. What in your mind are the most important things Congress could do to bend the [cost] curve in health care?*

Obama: Well, you know, I had a meeting not just with [[Congressional Budget Office Director Doug](#)] Elmendorf, but also with a number of other health economists this week, and they confirmed what I had been hearing and reading about and studying over the last several months - there are a wide range of delivery system reforms that we can put in place that can make a difference.

We know that if the Mayo Clinic or Geisinger are doing things smarter for less money that there should be ways to incentivize other health systems, applying these models. So that's one set of major reforms. And what we think is the most powerful lever to achieve those reforms is this [MedPAC idea](#) that we provided a very detailed proposal to Congress on.

At this point, I am confident that both the House and the Senate bills will contain what we've been calling MedPAC on steroids, the idea that you continually present new ideas to change incentives, change the delivery system, understanding that because this is such a complex system we're not always going to get it exactly right the first time, and that there have to be a series of modifications over the course of a series of years, and we have to take that out of politics and make sure that an independent board of medical experts and health economists are providing packages that are continually improving the system. So I think there's general consensus that that is one of two very powerful levers to bend the cost curve.

Now, the second idea, which is the one that got more attention, even though Elmendorf, I think, has emphasized the benefits of a MedPAC board, as well, was the elimination of the [tax exclusion](#) [on employer-provided health insurance]. And I've been very clear on my position that I think to add additional costs to families right now when they're already seeing their premiums doubled is not the kind of health reform that I'd like to see, but I believe that there may be ways of getting at the same principle.

For example, you could conceivably set up an index of some sort that makes sure that health care inflation -- or to make sure that the exclusion only accommodates a certain amount of health care inflation -- as opposed to 8 percent or 9 percent, or what have you -- without burdening current plans, but over time assuming -- if we're assuming that health care inflation is going to continue to be a problem, that you could get at the problem in that way.

*Hiatt: A kind of cap, but one that doesn't hurt anybody --*

Obama: Currently.

*Hiatt: -- at the current level?*

Obama: Exactly. You're also seeing, I think, some interesting discussions in the Senate Finance Committee about a variation that goes after the insurance companies, as opposed to directly taxing the benefits.

Now, this is something that I think economists find appealing partly because it's -- although it's a blunter instrument, it's more measurable than some of the delivery system changes -- although I actually think the delivery system changes are more long-lasting. And you could have a situation

in which you cap the exclusion or eliminated the exclusion and, yes, that would drive health care inflation down, but it also could drive quality of health care down because you're not doing anything to change a perverse system in which we pay for more medical care as opposed to medical care that actually makes us healthier.

And so I think that if you look at what's happened in the House bill -- and I had a meeting with the Blue Dogs as well as Henry Waxman yesterday -- originally Judd Gregg and Kent Conrad had [sent a letter to Elmendorf](#) several months ago asking what would bend the cost curve. He listed about 18 items; 16 of them had already been adopted in some form in the House bill, in some cases not as strong as they might have been, so they may still need to be tweaked. The two that were not in there were the MedPAC and the tax exclusion.

I think we're going to see consensus around the MedPAC proposal. And then the question is, is there some way to deal with what's emerging in the Senate Finance Committee where we can build some consensus.

*Hiatt: Given that, on the first category, Elmendorf and others have written that -- and as you say, it's a process over years and we still -- there's a lot we don't know and so forth -- why not, or did you consider, or would you consider phasing in access and increasing access as you see the [cost] curve is bending, but slowing the growth in that entitlement if the curve is not being bent?*

Obama: Well, I guess my thinking here, Fred, is to separate out two questions. One is, are we paying for the health reform package in a deficit-neutral way -- which, by the way, would stand in stark contrast to everything that's been done over the last eight years; certainly wasn't done with the Medicare prescription drug plan. So what I've said is I will not sign a bill that is not deficit-neutral.

Now, that means that about -- the way we have looked at it, about two-thirds of the pay-fors come out of reallocating money that's already in the system, that the taxpayers are already spending but aren't getting good value for -- the Medicare Advantage Plan, the subsidy to insurance companies, being a prime example.

We would then have to find revenue for the additional third. Now, the issue of making sure this is deficit-neutral is somewhat separate from the issue of bending the cost curve. I mean, conceivably, you could have a system that pays for itself, but doesn't bend the cost curve; it's going to cost you more and more money. Or, alternatively, you could bend the cost curve, but not expand coverage. I think that it's important to do both. I think it's important for us to make sure that 46 million people who don't have health insurance get it. And I think it's important for us to bend the cost curve, separate and apart from coverage issues, just because the system we have right now is unsustainable and hugely inefficient and uncompetitive.

I guess theoretically, you could just work on bending the cost curve without providing additional coverage. I actually think that you lose some of the benefits of getting universal coverage. For one thing, all the issues of uncompensated care would still be coming up. You potentially would lose the benefits of buy-in from insurance companies and drug companies and hospitals and others who feel that, okay, at least if we have an individual mandate and everybody has bought

into the system, then we have more consumers, and we are more willing then to wring out insufficiencies in providing -- insufficiencies per patient, essentially.

So I actually think that not only is it the right thing to do to go ahead and cover people, but I think it becomes easier to build a consensus around making some of the changes that are necessary to bend the cost curve.

*Hiatt: But if you got a bill that was universal access paid for but didn't have things you think are key to bending the curve, would you accept it?*

Obama: No. And I've been clear about that. And then the reason is because over time, what would happen would be that even if we had paid for it in the first 10 years, in the next 10 years if health care inflation went up faster than whatever revenue source we had we'd be adding to the deficit then. And that's just not sustainable. And I've said as much to members of Congress; we've got to do both.

*Hiatt: An argument on the third that's paid for by non-health [revenue], whether it's your capping of the tax -- the charitable deductions, or a surtax, is that it's going to make it that much harder for you to deal with the deficit when you come around to that. How do you feel about that?*

Obama: Well, as I said before -- I mean, you know this better than I do, Fred -- if we don't do anything on health care inflation, then we might as well close up shop when it comes to dealing with our long-term debt and deficit problems, because that's the driver of it -- Medicare and Medicaid. It is not possible for us to cut nondiscretionary -- or it's not possible for us to cut non-defense discretionary spending sufficiently to close the gap. The only way for us to close the gap in any serious way is if we get health care inflation under control.

So when I say that health care reform is fiscal reform, I mean it. And I think the facts are on my side on this. And really nobody can deny it. The problem we have in this whole debate is that bending the cost curve, curbing health care inflation, is harder to measure in part because it doesn't just involve government outlays; it also involves what's happening in the private sector.

Now, we should note -- because there's some people who then draw the conclusion that, well, there is no way to really bend the cost curve -- but in fact, in the 1990s, we did bend the cost curve for a pretty considerable period of time. I mean, at one point, health care inflation actually went down to at least normal inflation levels, maybe even a little below that. And then it jumped -- it popped back up.

*Hiatt: People didn't like being in those HMOs.*

Obama: Yes. Well -- and so what that tells me then is that it can be done and there are health systems that are doing it, but it is a matter of us making sure that we are applying ourselves in a consistent basis to make it happen. And that's part of why I think this MedPAC idea is so important.

*Hiatt: If I could just press a little bit on the larger fiscal.*

Obama: Sure, go ahead.

*Hiatt: CBO and other economists say that, as you say, you can't solve the fiscal problem if you don't solve the health problem. But they also say that solving the health cost problem is not sufficient, that a big part of the issue is demographics and aging. And so -- and as you know, the 10-year budget shows the government raising 18 or 19 percent of [gross domestic product] in 2019, and spending 24 or 25 percent --*

Obama: We have a structural gap that has to be closed.

*Hiatt: So can I ask you how you think about the timing and politics of closing that structural gap?*

Obama: What I think has to happen is if we can show that we have a disciplined health care reform package that is serious about cost savings and is deficit-neutral, you combine that with the [pay-go rules that we have been promoting](#) and I believe that we can get through Congress, and you are imposing some discipline on the appropriations process -- and I thought that the [F-22 victory yesterday](#) was a good example of us starting to change habits in Washington -- then I think we're in a position to be able to, either at the end of this year or early next year, start laying out a broader picture about how we are going to handle entitlements in a serious way.

It may start with Social Security because that's, frankly, the easier one. And I think that it's possible to also look at tax reform and think about are there ways that we can maybe even lower marginal rates but eliminate all the loopholes and have that a net revenue generator. I think there are going to be a bunch of things that we can take a look at, but I think health care reform combined with pay-go, combined with how we deal with appropriations bills over the next six months will help lay the foundation for us to be able to make some of these broader structural changes.

The challenge I've got, Fred, is that obviously -- our biggest problem right now in terms of short-term deficit is the recession. And nobody -- no economist I've talked to thinks that it would be wise for us to start early, start now, in reducing government outlays, when states are already cutting back drastically, and you'd have a hugely destimulative effect on the economy. But we have to begin to prepare on the midterm and the long term. And that's why I think health care reform is so important.

*Hiatt: So but you'd start that in an election year and does that --*

Obama: Well, probably what you end up having to do in terms of structural reforms realistically is you probably have to set up some sort of commission or mechanism that reports back with the prospect of maybe locking in a pledge for action, post election. I just think that's probably the most realistic thing that we can do.

And as I said before, the truth is you wouldn't want anything that would take effect until the economic recovery is much -- on much firmer footing anyway.

*Hiatt: And you'd be willing to look at a commission -- I mean, beyond Social Security that sort of puts everything on the table?*

Obama: Yes, I think everything is going to have to be on table. But here's my concern. If we are not able to get health care reform -- and, Fred, I just want to be frank with you at this point that this is why I think that if you're a deficit hawk like you, you should actually be -- you should be hard on sort of the product, but you should be encouraging on the process, because the fact of the matter is, is that if health care reform fails, there is no way that Congress is going to take up a serious effort to control health care inflation -- there's no way that we're going to pass the kinds of changes we've already talked about in Medicare, for example, in the absence of a more comprehensive reform package. And so what we're going to have is a situation in which it's just business as usual for, I think, the next four years at minimum, and maybe the next eight -- in which case, the problem is just going to keep on getting worse and worse.

So I think it is important to be jaundiced about the possibility that health care reform in the absence of these game-changers makes things worse, and I think that's entirely fair to talk about. But I think that -- [Steve Pearlstein](#) was exactly right in his [article today](#), which is, here's what we know: If we do nothing, this thing is a nightmare, and we will not be able to, I think, just apply pain to the electorate either through mechanisms like simply cutting Medicare benefits at a time when seniors are already feeling very stressed, when we're not also providing the people some additional security.

*Hiatt: I mean, that is very persuasive, of course. I guess to be jaundiced if I could a little bit, one could look at your presidency and say you have taken on early a lot of really hard things, as you say, not just health care but cap-and-trade and education and charters and Pell grants, and put the entitlement reform or fiscal whatever we're going to call it in the second tier. And so why shouldn't the deficit hawks be nervous that that says something of that -- that you're committed to it, but when it comes to your priorities, you're committed to it in the second tier?*

Obama: Well -- and here would be my argument. The reason that it hasn't been at the forefront of my agenda is because I walked in when we were about to slip into the Great Depression -- or the next Great Depression. And so I had to start off, coming out of the box, with a recovery package that, whatever arguments may be made by the critics at this point, there was no economist out there who thought we didn't need to do, and a portion of that was just stabilization funds for states and tax cuts that were uncontroversial.

Folks can argue about some of the investments that were made -- most of them were roads and bridges and things -- but there might be people who said, well, why are you doing, for example, some education reform or health IT and here? Fair enough. But the overwhelming bulk of it was a much needed infusion of government demand to make up for trillions of dollars of wealth that has been lost.

Now, every economist I speak to, left and right, would also agree that it doesn't make sense for us to begin the process of deficit reduction at a time when the economy is still limping along. So I don't think it reflects -- I don't think our actions --

*Hiatt: Like you said before, you could do good things for down the road --*

Obama: Absolutely. But I think if you will recall, we had our -- we had a fiscal responsibility summit very early. And I put down a marker that this is going to be important to us.

I've been in office six months. I think sometimes people forget the fact that I think at this point in Ronald Reagan or Bill Clinton's presidency, their major initiative hadn't even gotten off the ground yet. I mean, in some ways we're our own worst enemy because we've gotten so many things done in these first six months, a lot of them dealing with extraordinary circumstances, that the sense is somehow that we have been putting off things that are also important to us. I just can't do everything at once.

And what I've said to Kent Conrad, what I've said to Judd Gregg, what I've said to others is, is that I am very -- I've said this to the Blue Dogs, I said it very early on -- we are serious about this. I was the one who pushed very hard to get the pay-go process moving so that we can start locking that in. We were very clear in terms of our budgeting, even though people were still concerned that we hadn't trimmed the budget as much as people would have liked. The fact is, is that we made some serious changes in how the budget is structured -- for example, making sure that our war expenses were in our budget -- to set the groundwork, to set the foundation, for us having a serious conversation about the budget.

So I think that the perception that we haven't been worried about this is partly subject to circumstances. You had -- we had to come out with a stimulus early. That was not what I would have preferred to do. I then had an omnibus because the previous administration and Congress had not been able to sort through their problems. And I will confess that there were aspects of that that I did not like, but I had to make a decision -- at a time when I wasn't clear whether or not the economy was going to get even worse and we potentially were going to have to take even more extraordinary action -- about the consequences of being embroiled in an enormous budget fight about last year's business.

We then had, by law, we had to introduce our budget, and then we had the supplemental, all at a time when government revenues are tanking.

And so I understand why a deficit hawk would be nervous. I'm nervous about this. And if you talk to my senior advisors, they'll tell you I'm on them every day about how are we going to make sure that we're positioning ourselves to take care of this long term.

But I just have to go back to the issue of health care reform. If I can't get this done, then I don't know how we're going to make the draconian choices that would then be required to close this gap in a serious way. I don't know how we can accomplish this if we've got 7, 8 percent health care inflation.

I mean, if you think about the politics of it for a moment, you would -- if you've got health care reform going up at that pace, then the only way to deal with this is to drastically cut services -- including things like Medicare that are just very hard to do politically in the absence of a broader comprehensive package or changes in delivery system -- and at the same time, increasing revenues, all in an environment in which the economy is struggling to rebound from a very serious body block.

And I just don't see Congress having the stomach to doing that unless we have a success under our belts with health care reform so that a year or two out, CBO starts looking and starts seeing some evidence that, you know what, health care reform -- health care inflation has, if not been tamed, it's gone down from 6 percent, say, to 3 percent. Now you start getting into the ballpark where you can say to people, look, if we do X, Y, Z -- if not a balanced budget then at least a deficit that is manageable comes into sight.

*Hiatt: You've been very -- do you have time for one more?*

Obama: All right, I've got time for one last question.

*Hiatt: Okay. Even for -- I mean, for all the things you're doing now, there are passionate constituents who want universal access, who want cap-and-trade. Hard to say -- there's many passionate people who talk about balancing the budget.*

Obama: Right.

*Hiatt: And so how do you deal with that in a political way?*

Obama: Well, you know, I actually think that, sadly, decisions are going to be forced upon us.

*Hiatt: By higher interest rates, or --*

Obama: Yes, exactly. I mean, I think that if we don't show that we're serious in some fashion, then I think you're going to see a reluctance on the part of people who've been snapping up Treasuries to keep doing so.

*Hiatt: And how soon do you think that could manifest itself?*

Obama: Well, I don't want to speculate. That's like talking about the dollar or interest rates. But I do think that that is a prospect that we have to be wary of and concerned about. And that, in some sense, will -- certainly compels me, if I'm being responsible in my office, to push hard on this. Now, making the argument then to Congress and these constituencies and the public is going to be a challenge.

As I said, though, I think that it's a lot easier to have these conversations when unemployment is no longer at 10 percent, and people feel that we've made some progress on health care reform and they're feeling there's a little more economic security out there. It's much harder to make at a time when people are already feeling desperate.

All right?

*Hiatt: Thank you so much.*

Obama: Thank you, Fred. Appreciate it. Bye-bye.